



# Newsletter

Spring 2006

## GST CHANGES NEED TO BE IMPLEMENTED

The GST will decrease from 7 to 6%, and HST will go down to 14%, for supplies occurring after June 30, 2006.

It will be crucial to ensure that transactions are properly documented and the correct rate of tax is used. The timing of a supply is determined by four factors. The supplier must report GST/HST based on the **earliest of:**

- the payment due date;
- the invoice date;
- the date the invoice is issued; and
- the actual payment date.

The new residential housing rebates will remain at 36% of tax paid on qualified property, to a maximum of \$7,560 progressively decreasing to zero for property valued over \$450,000. For real estate sales signed off before May 2, 2006 tax will apply at 7%, but where possession **and** title transfer occur after June 30, 2006, there is a special 1% rebate.

## DFK CANADA INC. RANKED 10TH LARGEST PUBLIC ACCOUNTING GROUP IN CANADA

The Bottom Line survey ranked Canada's Top 30 public accounting firms (by fee volume) for 2005. With combined revenue of all DFK Canada Inc. firms of \$90,000,000, our association would rank as the 10th largest accounting group.

The DFK Canada Inc. firms are ideally structured to service our clients where our role as auditor, tax expert, accountant and trusted advisor is highly valued. We offer our advice on an independent basis, with

Registrants using one of the "Quick" methods for GST reporting must use a new rate for tax-included revenues earned after June 30, 2006.

There is no adjustment to instalment payments for annual GST/HST filers.

The GST owing on taxable benefits will change, with a .5 % reduction for the 2006 tax year, and 1% thereafter.

The tax rate charged on lease payments needs to be adjusted.

Effective April 1, 2007, the interest and penalty rules on GST filings will vanish. The interest rate will change to the T-Bill rate, rounded up to the nearest percent plus 4%. The interest will no longer be deductible for income tax purposes. Late filing penalties, based on the amount owed, will be introduced.

an in-depth knowledge of our clients' business and personal financial goals.

Through our Canadian DFK network of 14 firms, we are able to provide a national scope to our services. Our DFK International association in 68 countries provides services in all international markets. Our dedicated partners, professional and administrative employees are prepared to maintain and increase our value to our clients.

### Inside this issue:

<b>GST Changes Need to be Implemented</b>	<b>1</b>
<b>DFK Canada Inc. Ranked 10th Largest Public Accounting Group in Canada</b>	<b>1</b>
<b>Donation of Securities to Charities—Budget Proposals</b>	<b>2</b>
<b>Impact of 2006 Budget on Tax Rates</b>	<b>3</b>
<b>About Levy Pilotte, LLP</b>	<b>4</b>

*Always listen to experts. They'll tell you what can't be done and why. Then do it.*  
- Robert A. Heinlein

### Special points of interest:

- *Next personal tax instalments:*  
- June 15, 2006  
- Sept. 15, 2006
- *Bankruptcy changes postponed. RRSP still not protected.*

## DONATION OF SECURITIES TO CHARITIES—BUDGET PROPOSALS

Once again, the Federal government has made a very significant move in support of registered charities by **eliminating the tax on capital gains realized** on the donation of eligible property to a qualified donee, defined as registered charities (excluding private foundations).

The definition of an eligible property is a share, debt obligation or right listed on a prescribed stock exchange, a share of the capital stock of a mutual fund corporation, a unit of a mutual fund trust, or an interest in a related segregated fund trust (effectively shares of a public company), and includes the donation of stock options of corporations listed on prescribed stock exchanges.

The government first introduced the concept of reducing the tax cost on capital gains incurred on the donation of shares in public companies (stocks) in 1997.

In their first budget, the new Conservative government honoured their pledge to registered charities to completely eliminate this tax cost.

This change is expected to have a significant impact by enticing individuals to donate securities that they may have been hesitant to donate in the past due to the tax consequences previously associated with these gifts.

The following table illustrates the difference to the individual donor, the registered charity, and the Tax authority between selling stock and donating the net proceeds to charity versus donating the stock directly to a charity.

	<b>DONATE STOCK DIRECTLY</b>		
	<b>INDIVIDUAL DONOR</b>	<b>REGISTERED CHARITY</b>	<b>TAX AUTHORITY</b>
Donation of stock to charity	\$ (10,000)	10,000 \$	
Tax on disposition	0		0
Tax savings on donation at top rate in Quebec (48.2%)	4,820		(4,820)
Net Position	<u>\$ (5,359)</u>	<u>\$ 10,000</u>	<u>\$ (4,820)</u>
	<b>SELL STOCK AND DONATE NET PROCEEDS</b>		
Gross proceeds on sale of stock	<u>\$ 10,000</u>		
Tax on gain assuming a cost of \$2,000 for the stock and top rate in Quebec [(\$10,000 - \$2,000) x 50% x 48.2%]	(1,928)		1,928
Net proceeds available for donation to charity	(8,072)	8,072	
Tax savings on donation at top rate in Quebec (48.2%)	3,890		(3,890)
Net Position	<u>\$ (6,110)</u>	<u>\$ 8,072</u>	<u>\$ (1,962)</u>
	<b>DIFFERENCES</b>		
Net benefit (cost)	<u>\$ 750</u>	<u>\$ 1,928</u>	<u>\$ (2,858)</u>

In this example, the charity and the donor are both ahead when the stock is donated. The donor would have the same tax savings as if they had donated cash, while eliminating the accrued capital gains tax that they had on the stock. The opportunities for estate and tax planning have been greatly enhanced with this change.

***Effective May 3, 2006, there is no tax on capital gains realized on the donation of eligible property (primarily shares in public companies) to qualified donees.***

The federal budget of May 2, 2006 contained several tax reduction measures:

- The threshold for the Small Business Deduction on active earnings will increase from \$300,000 to \$400,000 effective January 1, 2007.
- The federal surtax of 1.12% will be eliminated for all businesses effective January 1, 2008.
- The dividend gross-up will be increased from 25% to 45% (and the corresponding dividend tax credit will be increased from 13.33% to 18.97%) for any corporate income that has already been taxed at the highest corporate tax rate, retroactive to January 1, 2006.

The change relating to dividends has the following impact:

- It puts income trusts, public companies and Canadian Controlled Private Corporations (CCPC) high active business earnings (i.e., not investment income) on a more equal taxation level.
- It makes it more attractive for CCPC's to leave income in the corporation above the \$300,000/\$400,000 threshold, since the total taxes payable are less than before the budget. The tax cost initially to the company is 32.02% in Quebec, and after the dividend payment the total tax cost is 53%.

The following is an illustration of the tax treatment of various types of active business corporate income, both under the existing rules and the proposed rules:

	-----Current-----			Proposed
	Salary or Trust Income to Individual	CCPC Small Business Tax Rate	CCPC on Active Income > \$400,000	CCPC on Active Income > \$400,000
Net income before taxes	0	100,000	100,000	100,000
Federal rate - 13.12% or 22.12%	0	-13,120	-22,120	-22,120
Provincial rate - 8% or 9.9%	0	-8,000	-9,900	-9,900
Net corporate cash - to be paid as dividend in the future	0	78,880	67,980	67,980
2006 Personal cash from bonus	100,000	0	0	0
2006 Federal personal tax @ 48.2%	-48,200			
2006 After-tax cash	51,800	0	0	0
Future dividend	0	78,880	67,980	67,980
Federal taxes (old - 16.35%, new 12.15%)	0	-12,897	-11,115	-8,260
Provincial taxes (old - 16.45%, new 17.51%)	0	-12,976	-11,183	-11,903
Total cash from dividend	0	53,007	45,682	47,817
Net personal cash	51,800	53,007	45,682	47,817
Total taxes paid	48,200	46,993	54,318	52,183

#### Comments:


- Quebec corporate and personal tax rates are used above.
- Paying dividends instead of salaries is now more attractive, especially when other payroll costs such as QPP, EI, CSST, and other provincial payroll taxes are considered; however, dividends are not earned income for RRSP purposes.
- Unlike salaries, dividends are not subject to Canada Revenue Agency's (CRA) reasonableness tests.

**“Put our  
Experience to  
Work for You”**



LEVY PILOTTE  
S.E.N.C.R.L./LLP

5250, Décarie, # 700  
Montréal, Québec  
Canada H3X 3Z6

 (514) 487-1566

 (514) 488-5145

 [lpilotte@levypilotte.com](mailto:lpilotte@levypilotte.com)

 [www.levypilotte.com](http://www.levypilotte.com)

A member firm of :



## **About Levy Pilotte, LLP**

“Levy Pilotte is an accounting firm that fully understands its clients' needs both professionally and personally.

Founded in the 1930s, it has accumulated an impressive amount of expertise through growth, as well as the contribution and knowledge of many talented chartered accountants from various business and cultural backgrounds.

Levy Pilotte has been present in over 260 offices in 69 countries through its affiliation with DFK International.

Building on its history of high standards, Levy Pilotte remains a dynamic firm confidently looking towards the future. It prides itself on its commitment to professionalism, integrity and quality of services supplied in a youthful environment.

Levy Pilotte has the knowledge and expertise to assist you in strategically planning your future. Our services include auditing and accounting, income tax services as well as personal and corporate financial planning.

It is all these strengths that have made Levy Pilotte one of Québec's top 20 chartered accountant firms. “

